

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 PM-04 DODE-00 OES-06

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4536

C O N F I D E N T I A L JAKARTA 6685

EO 11652: GDS

TAGS: PFOR MASS ID

SUBJECT: IMPLICATIONS FOR INDONESIA'S FINANCIAL SITUATION

REF: (A) JAKARTA 6079, (B) JAKARTA 6280, (C) JAKARTA 5533,
(D) JAKARTA 4717

1. REFERENCED TELEGRAMS DEALING RESPECTIVELY WITH IBRD ASSESSMENT OF INDONESIA'S FINANCES, WITH REQUEST FOR MORE FAVORABLE PL 480 TERMS, MINISTER WIDJOJO'S GENERAL ASSESSMENT, AND PROBLEM OF FMS CREDIT TERMS ALL POINT TO ONE OVERRIDING FACT RELATING TO INDONESIA'S CURRENT SITUATION: INDONESIA IS IN SERIOUS FINANCIAL DIFFICULTY.

2. SINCE TIME OF OIL PRICE INCREASE, WASHINGTON AGENCIES HAVE BEEN OPERATING LARGELY IN BASIS THAT INDONESIA ALREADY ABLE TO SUSTAIN HARDER LOAN TERMS, NO LONGER QUALIFIED FOR SOFT WINDOWS, AND THAT PICTURE IN NEXT FIVE YEARS WILL BE EVEN BRIGHTER. IN EMBASSY'S VIEW ALL OF THESE ASSUMPTIONS NEED TO BE RECONSIDERED.

3. FOCUS ON OIL INCOME HAS TENDED TO OBSCURE REAL NATURE
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OF INDONESIAN ECONOMY. WITH PER CAPITA INCOME OF APPROXI-

MATELY \$135 PER ANNUM IN 1973 PRICES, THIS REMAINS, NEXT TO BURMA AND INDIA, POOREST COUNTRY IN ASIA. OIL RESOURCES ARE MINIMAL IN THIS CONTEXT. IN OUR VIEW WE SHOULD REMOVE BLINDERS WHICH HAVE OBSCURED THESE FACTS AND TREAT INDONESIA, AT LEAST AS FAR AS U.S. GOVERNMENT POLICIES ARE CONCERNED, AS ONE OF POOREST COUNTRIES.

4. INDONESIANS THEMSELVES MAY BE RELUCTANT TO ACKNOWLEDGE THIS PICTURE PUBLICLY BUT ALL SIGNALS IN PRIVATE CINVERSA-TIONS AND IN INTERNAL POLICIES MAKE CLEAR THAT THEY RECOGNIZE THESE FACTS. CONSEQUENTLY, THEY MAY NOT SPECIFICALLY REQUEST TURN AROUND IN PRESENT POLICIES ON CONCESSIONAL LENDING, PROGRAM AID, MINIMUM PL-480 TERMS, ACCESS TO IDA, AND GREATER GRANT COMPONENT IN AID. ANY ONE OR ALL OF FOREGOING, HOWEVER, WILL BE ACCEPTED AND APPRECIATED.

5. ONE CAN ARGUE THAT CURRENT SITUATION IS IN LARGE PART RESULT OF INDONESIAN MISMANAGEMENT OF FINANCIAL OPPORTUNITY. THIS IS TRUE. WHAT IS ALSO TRUE IS THAT DESPITE POLITICAL AND ECONOMIC CONSEQUENCES OF PERTAMINA PROBLEM, SUHARTO AND GOVERNMENT HAVE TAKEN BOLD STEPS TO STABILIZE FINANCIAL SITUATION, ESTABLISH PRIORITIES, AND CUT BACK ON UNECONOMICAL PROJECTS. WHAT IS ALSO TRUE IS THAT POLICIES OF WESTERN, INCLUDING PARTICULARLY AMERICAN, BANKS WHICH RUSHED TO LEND INDISCRIMINATELY TO INDONESIA ARE PARTLY RESPONSIBLE FOR SITUATION.

6. AS WE APPROACH IGGI AND CONSULTATIONS WITH INDONESIANS, THIS COUNTRY, IN OUR THINKING, SHOULD BE PUT BACK INTO CATEGORY OF ONE OF POORER MAJOR COUNTRIES. WHERE WE HAVE DISCRETION IN LOAN TERM AND AID POLICIES, (PARTICULARLY IN FMS AND PL-480), WE SHOULD EXERCISE THEM IN THIS DISCUSSION. WE SHOULD ALSO GIVE SERIOUS CONSIDERATION TO INCREASING GRANT COMPONENT OF OUR AID. RECOGNITION OF PROBLEM BY US AND CONCESSIONS WHERE POSSIBLE CAN BE IMPORTANT FACTOR IN MAINTAINING CLOSE RELATIONSHIP WITH THIS KEY COUNTRY IN MONTHS AND YEARS IMMEDIATELY AHEAD.

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